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revenue properties company limited

1975

annual report

revenue properties company limited

DIRECTORS

Richard A. Bain, Toronto,
Partner, Siegal, Fogler, barristers and solicitors

Watson W. Evans, Toronto,
Retired

Maxwell Goldhar, Toronto,
President, Revenue Properties Company Limited

Paul W. Hellen, Toronto,
Solicitor, Revenue Properties Company Limited

Ken Kelman, Toronto,
Vice-President, First Canada Financial Corporation Ltd., financial consultant

Gurston I. Rosenfeld, Toronto,
Director, Gdn. Management Limited, investment management company

C. Harris Tod, C.A., Toronto,
Vice-President, Revenue Properties Company Limited

Sara Tuberman, Toronto,
Treasurer, Revenue Properties Company Limited

Michael G. Wright, Montreal,
President, Revcon Developments Limited

OFFICERS

President: Maxwell Goldhar
Vice-President: C. Harris Tod, C.A.
Secretary: Richard A. Bain
Treasurer and Assistant Secretary: Sara Tuberman
Controller: Peter W. Grater

AUDITORS

Thorne Riddell & Co.

COMMON SHARES

Registrar & Transfer Agent
National Trust Company, Limited

Co-Registrar & Co-Transfer Agent
Bankers Trust Company

SENIOR DEBENTURES

Trustee: The Royal Trust Company

SUBORDINATED DEBENTURES

Trustee: National Trust Company, Limited

HEAD OFFICE

44 King Street West, Toronto, Ontario M5H 3A3

revenue properties company limited

and subsidiaries

annual report

CONTENTS

TO THE SHAREHOLDERS

I am pleased to report that considering all the difficult circumstances affecting the real estate industry generally, 1975 was a year of progress for your Company.

The Consolidated Financial Statements show a net income of $580,000 equal to 4.1¢ per share before extraordinary items, compared with $492,000 or 3.5¢ per share for 1974.

Income for 1975 after extraordinary items was $650,000 or 4.6¢ per share compared with $525,000 or 3.7¢ per share in 1974.

Gross profits from our operations during the year increased by nearly $1 million over 1974, despite a decline in volume of sales of construction and real estate held for development of nearly $3 million. Sales of revenue producing real estate increased to $4,329,000 from 1974 sales of $489,000, with a gross profit of $955,000 compared with 1974 gross profit of $91,000. Because most of the profit on the sale of revenue producing real estate was subject either to no tax, or to capital gains taxes only, income tax expense was proportionately lower. Present indications are that sales of construction and real estate held for development will show a significant increase in 1976 although sales of revenue producing real estate are expected to be lower than in 1975.

Rental income increased by 10 per cent to $11,291,000 in 1975 and gross profit from rentals was up by 20 per cent to $3,010,000. The rental income improvement resulted from rent increases and the bringing on stream of new income producing properties. A number of new rental properties are under construction, the income from much of which will be controlled by Government assisted financing. The addition of these properties to our portfolio of revenue producing real estate in future years will tend to show increases in gross profits from rental income and at the same time increases in interest expense. In 1975 interest expense increased by 8 per cent to $3,134,000.

The introduction of rent controls during 1975 did not have a significant effect on rental income during 1975, and we do not expect these controls to materially affect our future operations in this area.

Starts and sales of housing in our various projects continued at a steady pace despite a general decline in sales of construction and real estate. In the City of Boucherville, near Montreal, we began a 320 acre residential/industrial development and by the year's end had sold 75 lots to builders and had started 81 single family units. We closed 29 sales in 1975 and had orders on hand for another 44 houses. The houses are selling steadily in advance of construction with no apparent softening of demand.

We completed construction of a 60,000 sq. ft. industrial building in Boucherville and have part of it leased. In our Pointe Claire industrial subdivision near Montreal, we constructed a third rental building of 50,000 sq. ft. While the industrial rental market in Montreal declined sharply during the latter part of the year, there are signs that activity is beginning to pick up, and we are hopeful of leasing out the new buildings in the near future.

These new revenue producing buildings, which are replacements for the older buildings that have been sold during the past few years, will enable the Company to maintain a healthy level of newer income producing real estate.

In our Simcoe joint venture, known as Crestlynn Subdivision, we completed the servicing of 225 lots and completed most of the first phase of residential construction. We also sold the 60 additional lots we had purchased in an adjacent subdivision at a reasonable profit. The pace of development in the area slowed considerably with the announcement by Stelco that it was delaying full development of its huge steel-making complex at Nanticoke until market conditions improved. As a result there still has not developed a significant demand for new housing in the area.

We began construction of 26 semi-detached houses, 62 town houses and a 13,000 sq. ft. shopping centre in Guelph during the year. We expect all of these projects will be completed within a few months.

In Oakville, the joint venture in which we have a 50% interest is building a 13,300 sq. ft. shopping centre which is now 50% leased, and the construction of 41 town houses has gone ahead as planned.

The first phase of our 210-acre joint venture in Oakville has been registered and we have accepted down payments on all of the single family and semi-detached lots. We expect to have the land serviced this year.

The third of our four apartment buildings at Jane Street and Wilson Avenue in Toronto is currently leasing and we expect to complete the fourth unit this year. All of these units are limited income, government assisted developments.

Elsewhere in the Toronto area we started construction of a number of residential units in joint ventures, the company's share of which is 411 units. Certain of these units are being constructed under a fixed price contract with owners who have undertaken to lease the buildings back to the joint venture partners for up to 49 years.

In Uxbridge Township, land use planning for the area surrounding the proposed Pickering airport still has not been completed. In the meantime, your Company is proceeding with such development of its 5,400 acre holding in the area as is permitted from time to time. We have sold a few estate lots and are continuing to work closely with planners in the area to obtain severances for additional properties as we are permitted.

While we anticipate no immediate general easing of the difficulties that have faced the industry during the past year, we are pleased with the progress your Company was able to make. Your attention is drawn to Note 19 of the Consolidated Financial Statements which points out that the Company has received commitments from a Canadian chartered bank to provide up to $6,500,000 on a non-revolving secured loan basis, to be used to retire specified debts.

In October, 1975 the Government of Canada introduced the Anti-Inflation Act in an attempt to control the inflationary spiral which was having a detrimental effect on the Country. We agree with the Government that at that point in time some controls were necessary, but we are not certain that the exact nature of the controls introduced are in the best interests of the Canadian economy.

We feel that worldwide inflationary trends are lessening and that Canada will experience a similar reduction in inflation with or without controls. It is our hope, therefore, that the result will be relief from the controls now in effect sooner than the Government presently plans.

We will of course abide by the regulations under the Anti-Inflation Program. At this time it is difficult to tell what effect this will have on the future operations of your Company.

On Behalf of the Board of Directors

MAXWELL GOLDHAR,
President.

Toronto, April 19, 1976.

revenue properties company limited

(Incorporated under the laws of Ontario)

and subsidiaries and joint ventures

CONSOLIDATED BALANCE SHEET

DECEMBER 31

ASSETS

	Note	1975 $000's	1974 $000's
Revenue producing real estate	2	**35,748**	35,259
Construction in progress	3	**13,633**	3,796
Land held for and under development	4	**38,250**	35,814
Accounts and mortgages receivable	5	**11,431**	11,935
Deferred currency adjustment	10	**1,948**	2,060
Other assets	6	**1,132**	1,037
Cash	7	**2,334**	2,531
		104,476	92,432

LIABILITIES

	Note	1975 $000's	1974 $000's
Mortgages payable on revenue producing real estate	8	**27,403**	24,790
Other loans and mortgages payable	9	**26,177**	21,103
Sinking fund debentures	10	**13,463**	14,216
Bank indebtedness	11	**3,896**	2,272
Accounts payable and accrued liabilities		**7,639**	5,067
		78,578	67,448
Deferred income	12	**3,133**	3,071
Deferred income taxes		**2,255**	2,053
		83,966	72,572

SHAREHOLDERS' EQUITY

	Note	1975 $000's	1974 $000's
Capital stock	13	**27,324**	27,324
Deficit		**(6,814)**	(7,464)
		20,510	19,860
		104,476	92,432

Approved by the Board:

Director Director

CONSOLIDATED STATEMENT OF INCOME

YEARS ENDED DECEMBER 31

		1975 $000's		1974 $000's
Rental Operations				
Rental income		11,291		10,298
Property operating expenses	7,207		6,847	
Depreciation	1,074	8,281	948	7,795
Gross profit		3,010		2,503
Revenue producing real estate				
Sales	4,329		489	
Cost of sales	3,374		398	
Gross Profit		955		91
Construction and real estate held for development				
Sales	4,726		7,729	
Cost of sales	4,089		6,605	
Gross Profit		637		1,124
Interest and other income		1,133		1,166
Gross profit from operations		5,735		4,884
Deduct: Interest expense net of amount capitalized (note 17(a))	3,134		2,888	
Administration and general expenses	1,661		1,459	
Discount on sale of mortgages	—		298	
Currency adjustment previously accrued (note 1(e))	—		(109)	
Net transfer to (from) deferred income	62	4,857	(530)	4,006
Income before income taxes and extraordinary item		878		878
Income taxes (note 18)		298		386
Income before extraordinary item		580		492
Extraordinary item				
Income tax reduction on application of prior years' losses		70		33
Net income		650		525
Earnings per share (note 17(b))				
Before extraordinary item		4.1¢		3.5¢
After extraordinary item		4.6¢		3.7¢

CONSOLIDATED STATEMENT OF DEFICIT

YEARS ENDED DECEMBER 31

	1975 $000's	1974 $000's
Deficit at beginning of year	**7,464**	7,989
Net income	**650**	525
Deficit at end of year	**6,814**	7,464

AUDITORS' REPORT

To the Shareholders of Revenue Properties Company Limited

We have examined the consolidated balance sheet of Revenue Properties Company Limited and subsidiaries and joint ventures as at December 31, 1975 and 1974 and the consolidated statements of income, deficit and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies and joint ventures as at December 31, 1975 and 1974 and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles which have been applied on a consistent basis.

Toronto, Canada
March 25, 1976

Thorne Riddell & Co.
Chartered Accountants

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEARS ENDED DECEMBER 31

SOURCE OF FUNDS	1975 $000's	1974 $000's
Net income	**650**	525
Items not involving funds		
Depreciation	**1,074**	948
Deferred income	**62**	(530)
Deferred income taxes	**202**	464
Other	**(161)**	260
Funds from operations	**1,827**	1,667
Net changes in:		
Mortgages receivable	**(121)**	1,409
Bank loans	**1,707**	776
Loans and mortgages payable	**7,687**	2,776
Other assets and liabilities	**3,263**	2,541
	14,363	9,169

APPLICATION OF FUNDS		
Net changes in:		
Investment in revenue producing real estate	**1,563**	4,401
Construction in progress and land held for and under development	**12,273**	5,949
Sinking fund debentures	**641**	683
	14,477	11,033
DECREASE IN FUNDS	**114**	1,864
	14,363	9,169
Funds are defined as:		
Cash	**2,334**	2,531
Bank indebtedness, unsecured	**959**	1,042
	1,375	1,489

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1975

Throughout these notes "the Company" refers to Revenue Properties Company Limited, its consolidated subsidiaries and its consolidated joint ventures unless the context indicates otherwise.

1. Summary of accounting policies

The Company is a member of the Canadian Institute of Public Real Estate Companies. The Company's accounting policies and its standards of financial disclosure are substantially in accordance with the recommendations of that Institute.

(a) *Principles of consolidation*

The consolidated financial statements include the following:

— the accounts of all companies in which the Company holds more than 50% of the voting equity. The principal active subsidiaries are:

	Ownership %
Century City Developments Limited	76.25
One Thirty One Bloor West Limited	100
Revcon Developments Limited	100
Revenue Properties Central Developments Limited	100
Rusuth Investments Limited	100

— the accounts of all participating ventures in which the Company holds 100% of the land held for and under development and for which the Company is responsible for all financing required. The Company's participation in net profits or losses of these ventures varies from 70% to 90%.

— the proportionate share of the assets, liabilities, revenues and expenses of unincorporated joint ventures.

(b) *Capitalization of costs*

(i) The Company follows the policy of capitalizing direct carrying costs such as mortgage interest, realty taxes and other related costs as part of the cost of income producing properties under construction, lands held for and under development and housing projects under construction. With respect to construction of income producing properties, the construction period is generally considered to have ended when a rental occupancy of approximately 70% has been achieved provided that the project has attained a break-even position.

(ii) The Company also capitalizes that portion of interest on general borrowings considered applicable to lands held for and under development.

(c) *Income Recognition*

(i) Sales of housing and land

Income from these transactions is recognized as follows:

House sales	— at the date when title passes, at least 5% of the purchase price has been received, and all material conditions have been fulfilled or provided for.
Condominium sales	— when the amount due on closing is received, the purchaser is entitled to occupancy and undertakes to assume a mortgage for the balance of the purchase price.
Land sales	— when all material conditions have been fulfilled, at least 15% of the purchase price has been received, and interest has commenced to accrue at a reasonable rate on the balance due.

(ii) Construction income

Income from construction contracts is recorded on a percentage of completion basis.

(d) *Depreciation on revenue producing real estate*

Depreciation is provided using the straight-line method, based on the estimated useful lives of the various assets as follows:

Buildings	40-50 years
Furniture and equipment	10 years

(e) *Deferred currency adjustment*

Effective January 1, 1974 the Company recorded the Series C and D 9% convertible sinking fund debentures at the total amount payable including the currency adjustment. The currency adjustment is carried as a deferred charge and is charged to income during the year sinking fund payments and conversions are made (see note 10(a)). The effect of a change in policy on income in 1974 appears in the statement of income as "Currency adjustment previously accrued — $109,000".

2. Revenue producing real estate

	1975 $000's	1974 $000's
Land, buildings and equipment at January 1, less accumulated depreciation of $7,776,000 (1974, $7,101,000)	**35,259**	32,431
Additions during year	**4,753**	4,173
	40,012	36,604
Less: Disposals at net book value	**3,190**	397
Depreciation expensed	**1,074**	948
Balance December 31 at cost, less accumulated depreciation of $7,881,000 (1974, $7,776,000)	**35,748**	35,259

The cost of freehold land included at December 31 in the above is $3,322,000 (1974, $3,576,000).

3. Construction in progress

	1975 $000's	1974 $000's
Industrial and commercial rental properties	**2,388**	667
Residential rental properties	**6,139**	3,129
Housing	**4,318**	—
Construction contracts	**788**	—
	13,633	3,796

4. Land held for and under development

	1975 $000's	1974 $000's
Land		
Ontario	**33,190**	30,544
Quebec	**5,060**	5,270
	38,250	35,814

Land held for and under development is shown at cost and was increased during the year by interest and other carrying costs of $3,686,000 ($4,143,000 in 1974).

The Company owns approximately 5,400 acres in Uxbridge, Ontario adjacent to the proposed Pickering airport site. This acreage has a book value of $16,216,000 at December 31, 1975. Until such time as land use planning for that area is completed, the precise nature of future development of such lands cannot be determined; however, the Company is proceeding with such development in the area as is permitted from time to time and appears desirable.

5. Accounts and mortgages receivable

	1975 $000's	1974 $000's
Mortgages receivable	**9,720**	9,599
Balances receivable for land sold under agreements of purchase and sale	**439**	267
Rents and other receivables	**1,272**	2,069
	11,431	11,935

Mortgages receivable, including $3,478,000 on certain properties leased back (see note 14), bear interest at rates which vary from 5.25% to 12%, weighted average 8% and mature at various dates to 1999 as follows:

	$000's
1976	321
1977	809
1978	291
1979	496
1980	1,473
1981 and subsequent	5,622
	9,012
Second mortgages taken back on housing units sold mature at various dates to 1995 (interest rates vary from 6¾% to 10%)	708
	9,720

Substantially all mortgages receivable are pledged against loans payable (see note 9).

6. **Other assets**

	1975 $000's	1974 $000's
Prepaid expenses	**931**	811
Sundry investments at equity	**201**	226
	1,132	1,037

7. **Cash**

	1975 $000's	1974 $000's
Cash and short-term deposits	**2,089**	2,076
Cash in escrow	**245**	455
	2,334	2,531

8. **Mortgages payable on revenue producing real estate**

Mortgages payable bear interest at rates which vary from 6% to 13½%, weighted average 9%, and mature at various dates to 2025 as follows:

	$000's
1976	2,880
1977	1,553
1978	1,194
1979	2,192
1980	1,901
1981 and subsequent	17,683
	27,403

9. Other loans and mortgages payable

	Secured by: Construction and land held for and under development $000's	Secured by: Mortgages receivable $000's	Due to shareholders $000's	Total $000's
Arrears (see note (a) below)	2,121	—	—	2,121
1976	2,974	2,367	100	5,441
1977	6,265	2,350	100	8,715
1978	1,053	—	100	1,153
1979	1,127	—	540	1,667
1980	2	—	—	2
1981 and subsequent	7,078	—	—	7,078
	20,620	4,717	840	26,177
Variable interest loans	5,013	3,779		

Interest on these loans vary from 4% to 5% above the minimum lending rate charged by the Canadian chartered banks.

Fixed interest loans	15,607	938	840
Range of interest rates	6% to 15%	8% to 11%	12%
Weighted average interest rate	9%	10.7%	12%
Latest year of maturity	2026	1977	1979

(a) *Arrears*

The arrears of $2,121,000 represent the aggregate principal amount of mortgages covering approximately 2,800 acres of land in Uxbridge, Ontario. No substantial payments have been made on these mortgages since May, 1970. In addition there is owing approximately $1,226,000 as at December 31, 1975 for accrued interest on these mortgages, and this interest is included in the balance sheet in "Accounts Payable and Accrued Liabilities". Writs of foreclosure have been issued in respect of the bulk of these mortgages, and it is anticipated that the Company will be required to pay all principal and interest in arrears in 1976 in order to prevent foreclosure.

(b) *Due to shareholders*

The amount of $840,000 due to certain shareholders is secured by a second assignment of certain assets of the Company.

The shareholders may, on three months' written notice to the Company, call for payment in full of the balance of the loan then owing. In the event of such notice the shareholders must pay any costs in excess of 12% per annum incurred by the Company in refinancing the debt.

10. **Sinking fund debentures**

	Maturity Date	Principal $000's	Payments Due 1976 $000's	Payments Due 1977-89 $000's
9% Convertible sinking fund debentures				
Series A	May 15, 1976	1,707	1,707	—
Series B	June 1, 1981	1,094	191	903
Series C	February 15, 1981	4,482	782	3,700
Series D	June 15, 1981	3,311	577	2,734
		10,594	3,257	7,337
Add currency adjustment (note (a)(iv) below)		1,948	340	1,608
		12,542	3,597	8,945
7½% Convertible subordinated sinking fund debentures				
Series A	June 30, 1988	921	—	921
		13,463	3,597	9,866

(a) *9% Convertible sinking fund debentures*

(i) Sinking fund payments

The Company is required to pay to the trustee annually on November 15 an amount sufficient to retire the following principal amounts of 9% convertible sinking fund debentures:

Series B, C and D

Consolidated and shared by the Series B, C and D debentures rateably in proportion to the principal amount of each series outstanding on the October 5 immediately preceding the sinking fund payment date. Annual payments are $1,550,000 in 1976 to 1980 inclusive.

At December 31, 1974 the Company held $18,000 Series B, C and D debentures. During 1975 the Company purchased an additional $52,000 Series B and C debentures. The Company was reimbursed from cash held by the trustee as outlined in (ii) below and the debentures were cancelled.

Series A

At December 31, 1974, the Company had available a sinking fund credit in the amount of $54,000, of which $50,000 was so applied on November 15, 1975. During 1975 the Company purchased and cancelled $89,000 principal amount of Series A debentures.

(ii) Sinking fund credit

Although all series of debentures may be purchased or redeemed at prices not in excess of their redemption prices, Series A debentures are the only series which qualify for sinking fund credit.

The Company may be reimbursed for its purchase of any series of debentures from cash held by the trustee, up to a maximum of 80% of the redemption price (including the currency adjustment) of the purchased debentures, providing that the aggregate reimbursements for Series B, C and D debentures in any one fiscal year is limited to 50% of that fiscal year's consolidated sinking fund payment including the currency adjustment.

(iii) Convertible features

Each series is subdivided into four equal separate sub-series. The principal amount of such sub-series (series C and D sub-series being adjusted for the currency relationship noted in (a)(iv) below) may be converted into common shares at any time prior to maturity as shown below:

Sub-Series	Conversion price for one common share
I	$ 2.00
II	$ 3.00
III	$ 4.00
IV	$ 5.00

The above conversion prices are subject to anti-dilution provisions.

(iv) Currency adjustment

Series C and D principal and interest payments, including sinking fund payments, are subject to adjustment (limited to a 25% increase or decrease) depending on any changes in the relative values of the Canadian and Federal Republic of Germany currencies, calculated at the date of or immediately prior to payment.

This adjustment is carried as a deferred charge and is charged to income during the year sinking fund payments and conversions are made.

The number of shares issuable on conversion with respect to Series C and D is subject to adjustment (limited to a 25% increase or decrease) depending on any change in the relative values of the Canadian and Federal Republic of Germany currencies calculated at the date of or immediately prior to conversion. The currency adjustment at December 31, 1975 would have been approximately 40% but for the 25% limitation mentioned above.

(v) Redemption

The debentures are redeemable on or before maturity, in order of sub-series I to IV, at par plus accrued interest (adjusted for the currency adjustment noted in (iv) above).

(vi) Security

These debentures, Series A to D inclusive, rank equally and are secured by fixed and specific charges on certain mortgages receivable, certain revenue producing real estate, certain land held for and under development and by a first floating charge on the assets and undertaking of Revenue Properties Company Limited. Substantially all of these mortgages receivable and real estate also secure various indebtedness which ranks in priority to this charge.

(b) *7½% Convertible subordinated sinking fund debentures — Series A*

(i) Convertible features

These debentures in the amount of $921,000 are due June 30, 1988 and are convertible into common shares of the Company on or before June 30 in the years 1978 at $7.53 per share, 1983 at $8.91 per share and 1988 at $10.57 per share.

The conversion prices are subject to downward adjustment in the event that the Company issues any additional common shares, as defined, for a consideration per share different from the conversion price in effect immediately prior to the issuance of such shares. Of the shares reserved for possible issuance only those described in note (a)(iii) above relating to the 9% convertible sinking fund debentures would affect the conversion prices. No debentures were converted during 1975.

(ii) Sinking fund requirements

Under the terms of the Trust Indenture, a sinking fund is required to be established for the retirement of $700,000 aggregate principal amount of the debentures on June 30 in each of the years 1979 to 1988 inclusive. Since debentures converted into common shares and otherwise cancelled, amounting to $6,079,000 to December 31, 1975, can be applied against such sinking fund requirements, no sinking fund payments will be required until at least 1987.

(iii) Redemption

These debentures are redeemable at par (i) to meet sinking fund requirements, and (ii) at any other time if throughout the 180 days prior to the date on which notice of redemption is given the market price of the common shares has not been less than 125% of the conversion price then in effect.

(iv) Subordination

These debentures are subordinated to the prior payment in full of the sinking fund debentures referred to above and of certain other prior indebtedness.

(v) Dividend restrictions

There are restrictions under the terms of the Trust Indenture concerning payment of dividends.

11. Bank indebtedness

	1975 $000's	1974 $000's
Bank indebtedness, unsecured	**959**	1,042
Bank loans, secured by construction	**2,537**	996
Bank loans, secured by land held for and under development	**400**	234
	3,896	2,272

12. Deferred income

	1975 $000's	1974 $000's
Balance, January 1	**3,071**	3,601
Additions through profit on sale and leaseback transaction	**210**	—
	3,281	3,601
Less: Amounts included in income	**148**	530
Balance, December 31	**3,133**	3,071

Deferred income is composed of the unamortized profit on sale and leaseback and similar transactions which will be taken into income at the rate of approximately $160,000 per annum.

13. Capital stock

(a) *Authorized*

— 291,852.5 6% Cumulative, non-voting second preference shares, par value $10, redeemable at par.

— 20,000,000 Common shares without par value.

(b) *Issued and outstanding*

Common shares

	Shares	Amount
At December 31, 1974 and December 31, 1975	14,146,147	$27,324,000

(c) *Reserved*

The Company has reserved common shares for possible issue as follows:

7½% Convertible subordinated sinking fund debentures (see (i) below)	122,300
Stock options (see (ii) below)	36,000
9% Convertible sinking fund debentures (see (iii) below)	3,700,583
	3,858,883

(i) 7½% Convertible subordinated sinking fund debentures — $921,000.

The conversion of these debentures at $7.53 per share would result in the issue of 122,300 common shares. Additional common shares would also be reserved if the conversion price were to decline as the result of future share issues at prices below $7.53 per share (see note 10(b)(i)).

(ii) Stock options

Options to purchase 36,000 common shares are held by three directors and officers as follows:

	Price	No. of Shares
3,000 shares in each of the 2 five-year periods ending October 9, 1976 and 1977	$ 1.95	6,000
5,000 shares in the five-year period ending September 30, 1979	$ 0.50	5,000
5,000 shares in each of the five-year periods ending September 19, 1977 to 1981 inclusive	$ 0.63	25,000
		36,000

(iii) 9% Convertible sinking fund debentures

The conversion of these debentures, assuming the maximum currency adjustment applicable to Series C and D debentures as set out in note 10(a)(iv), would result in the issue of approximately 3,700,583 common shares.

14. **Lease and similar obligations**

(a) Payments required to be made pursuant to leases and similar obligations are as follows:

Years	Sale and leaseback leases in effect (i) $000's	Continuing cost of leases terminated (i) $000's	Long-term land (ii) $000's
1976	2,645	422	301
1977	2,641	418	301
1978	2,631	408	301
1979	2,568	330	293
1980	2,396	158	293
1981 and subsequent	26,821	1,579	21,986

(i) Under certain of the lease agreements relating to revenue producing properties which were sold and leased back, the lessor is to be paid a percentage of rentals in excess of a specified amount.

The rents included above for leases, whose latest year of expiry is 1999, are exclusive of participating rents, realty taxes, insurance, maintenance and repairs, and similar expenses.

Certain lease agreements permit the termination of continuing obligations upon the payment of a specified amount pertaining to each, the total amount of such payments being $1,791,000. The continuing annual rental obligations of other leases are listed above.

(ii) The rents included above for long-term land leases, for which the latest year of expiry is 2067, are exclusive of realty taxes.

(iii) In addition to the above, the Company in a joint venture, has undertaken to lease for up to 49 years two buildings presently under construction. The Company's share of the minimum annual rental is approximately $800,000.

(b) The Securities and Exchange Commission of the United States of America requires disclosure of the present value of financing leases and of the impact on net income of the capitalization of such leases as follows:

(i) Total rental expense on non-capitalized financing leases amounted to approximately $1,183,000 during 1975; rental income from subleases of these properties amounted to approximately $2,408,000 during 1975.

(ii) The minimum lease commitments for all non-capitalized financing leases and the related rental income to be received from existing subleases at December 31, 1975 are as follows:

Years	Lease Commitments $000's	Rental Income $000's
1976	1,183	2,364
1977	1,183	2,364
1978	1,183	723
1979	1,183	435
1980	1,183	83
1981-85	5,915	134
1986-90	5,915	31
1991-95	5,915	—
1996 and subsequent	4,141	—

(iii) The present values of the minimum lease commitments and rental income referred to in (ii) above (all related to real estate), at December 31, 1975 amounted to $12,582,000 and $4,960,000 respectively.

If all these financing leases were capitalized, related assets amortized on a straight-line basis ($453,000), and the interest cost accrued on the basis of the outstanding lease liability ($980,000 — weighted average interest rate of 7.8%), there would be an adverse impact on net income for 1975 of $125,000.

15. Contingent liabilities

The Company includes in the balance sheet its proportionate share of assets and liabilities of its joint ventures. The Company is contingently liable for the other participants' portion of the liabilities of these joint ventures, which contingent liability is approximately $16,000,000 as at December 31, 1975. Against this contingent liability, the Company has recourse to all of each joint venture's assets as well as the assets of the other participants to the extent it is required to pay liabilities in excess of its proportionate share.

16. **Legal proceedings**

(a) On January 30, 1974, Century City Developments Limited (a subsidiary of the Company) filed a claim in the Federal Court of Canada for additional compensation for approximately 1,100 acres of lands expropriated by the Government of Canada in May, 1973 and for injurious affection to the balance of approximately 5,400 acres of land adjacent thereto.

(b) See also note 9.

17. **Consolidated statement of income**

	1975 $000's	1974 $000's
(a) Interest charges		
Debentures — interest	**1,272**	1,397
— currency adjustment on principal	**112**	109
Mortgages	**4,389**	3,410
Other	**1,036**	1,028
	6,809	5,944
Less amounts capitalized	**3,675**	3,056
	3,134	2,888

(b) Earnings per share

Earnings per share is calculated using the weighted average number of shares outstanding of 14,146,147 in 1975 (14,145,522 in 1974).

The conversion of all convertible debentures or the exercise of outstanding options would not have a dilutive effect on earnings per share in 1974 or 1975 and consequently fully diluted earnings per share is not provided.

(c) Aggregate direct remuneration paid to directors and senior officers was $309,593 in 1975 ($341,574 in 1974).

(d) Anti-inflation legislation

The Company is subject, as follows, to the Anti-inflation Act which provides as from October 14, 1975 for the restraint of profit margins, prices, dividends and compensation in Canada:

(i) The parent company, Revenue Properties Company Limited, is subject to the restraint of dividends.

(ii) A number of subsidiaries may be subject to the restraint of profit margins, prices, dividends and compensation. In principle the profit margin and price controls require that only increases or decreases in certain costs can be reflected in price adjustments. However, the information currently available, including regulations under the applicable legislation, is not sufficiently precise to enable the Company to predict what impact the program will have on its operations.

(iii) The residential rental operations of the Company's subsidiaries are subject to the rent controls of the various provinces in which they operate.

The provisions of the Anti-inflation Act and the provincial rent controls had no significant effect on the Company's earnings for the year ended December 31, 1975.

18. Income taxes

The income taxes provided in the consolidated statement of income are as follows:

	1975 $000's	1974 $000's
Current	26	(111)
Current — subject to reduction by application of losses carried forward	70	33
Deferred	202	464
	298	386

Deferred tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences and the tax effect on each are as follows:

	1975	1974
Capital cost allowance over/(under) book depreciation	193	(172)
Net increase in carrying costs of real estate expensed on tax returns and capitalized on the books	—	55
Prior years' timing differences resulting in tax losses which were applied in the current year	—	496
Net differences resulting from method of deferring incomes for tax and book purposes	186	166
Operating loss in a subsidiary company for which future recovery of taxes was provided	(177)	(75)
Sundry other items	—	(6)
Deferred tax expense	202	464

The Company does not anticipate any reduction in deferred income taxes payable in any of the succeeding three years.

Expected tax expense differs from actual tax expense as follows:

	1975 $000's		1974 $000's	
Computed expected tax expense	**441**	**50.2%**	461	52.5%
Increase in expected tax expense resulting from:				
— an item which is not allowed as a deduction from taxable income	—	—	29	3.4%
— operating loss in a subsidiary company for which no future recovery of taxes was provided	**152**	**17.4%**	—	—
— other sundry items	**38**	**4.4%**	—	—
Decrease in expected tax expense resulting from:				
— non-taxable portion of capital gains	**(333)**	**(38.0%)**	(85)	(9.8%)
— other sundry items	—	—	(19)	(2.2%)
Tax expense	**298**	**34.0%**	386	43.9%

During the year certain subsidiaries of the Company earned profits which would have been subject to current income taxes except for the application of prior years' losses, such application resulting in a reduction of income taxes of $70,000.

19. Unused financing commitments

It is the policy of the Company to obtain commitments for mortgage financing on all residential construction projects at or prior to the commencement of construction. The unused portion of these commitments is in excess of the estimated costs to complete all housing units under construction.

At December 31, 1975 the unadvanced portion of mortgage commitments on residential units which the Company intends to retain as 'Revenue Producing Real Estate' amounted to $4,310,000. When advanced these will bear interest at 8% and mature between 1991 and 2026.

Subsequent to the year end the Company received commitments from a Canadian chartered bank to provide up to $6,500,000 on a non-revolving secured loan basis with repayments scheduled from 1977 to 1981. The proceeds will be used to retire specified debts and will bear interest at 2% over the applicable London Inter-Bank Eurodollar offer rate. The Company will pay a standby fee of ½ of 1% per annum on the unused portion of the commitments. The commitments and subsequent loans will be subject to an annual review.

20. Reclassification of 1974 comparative figures

1974 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1975.

FIVE YEAR SUMMARY OF OPERATIONS

	1975 $000's	1974 $000's	1973 $000's	1972 $000's	1971 $000's
Sales — real estate and construction	9,055	8,218	8,740	11,766	18,176
Cost of sales	7,463	7,003	6,539	9,049	16,287
	1,592	1,215	2,201	2,717	1,889
Net transfer from/(to) deferred income	(62)	530	1,178	666	(27)
	1,530	1,745	3,379	3,383	1,862
Rental income	11,291	10,298	9,927	9,803	9,124
Property expenses including depreciation	8,281	7,795	7,944	8,209	8,158
	3,010	2,503	1,983	1,594	966
Other income	1,133	1,166	1,688	1,511	1,509
	5,673	**5,414**	**7,050**	**6,488**	**4,337**
Interest expense net of amount capitalized	3,134	2,888	3,060	3,752	3,426
Other expenses	1,661	1,648	1,720	1,680	1,806
Income (loss) before income taxes and extraordinary items	878	878	2,270	1,056	(895)
Income taxes	298	386	1,364	332	512
Income (loss) before extraordinary items	**580**	**492**	**906**	**724**	**(1,407)**
Extraordinary items					
Income tax reductions	70	33	838	696	—
Debenture financing costs	—	—	—	—	(172)
Net income (loss) for the year	**650**	**525**	**1,744**	**1,420**	**(1,579)**
Earnings (loss) per share before extraordinary items	4.1¢	3.5¢	6.8¢	6.2¢	(12.8¢)
Earnings (loss) per share after extraordinary items	4.6¢	3.7¢	13.2¢	12.1¢	(14.4¢)
Average number of shares (in thousands)	14,146	14,146	13,242	11,746	10,962

1974 and 1975 SHARE TRADING

Shares of the Company were restored for trading on the Toronto Stock Exchange on February 9, 1974. Following is a summary of trading by quarters during the two years:

	1975				1974			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
High	1.49	1.13	.97	.87	2.67	2.55	1.35	.90
Low	.65	.81	.75	.65	1.65	1.20	.70	.56

SUMMARY OF PRINCIPAL HOLDINGS
DECEMBER 31, 1975

	Number of Residential Units Completed	Approximate Rental Area (sq. ft.)
Revenue producing property owned:		
(Company's Proportionate Share)		
Industrial		
Toronto, Ontario		1,017,000
Montreal, Quebec		851,000
Calgary, Alberta		24,000
Commercial and Residential		
Toronto, Ontario		
The Colonnade	156	74,200
Bloor Street	16	10,600
College Street		90,000
Yonge Street		7,400
Jane Street	292	—
Montreal, Quebec		69,900
Saint John, New Brunswick		205,300
Hill Island (Gananoque), Ontario		50 unit motel
Revenue producing property sold and leased back:		
Residential		
Toronto, Ontario	559	
Halifax, Nova Scotia	240	
Saint John, New Brunswick	152	
Commercial		
Toronto, Ontario		15,200
Halifax, Nova Scotia		141,800
Industrial		
Toronto, Ontario		720,000
Montreal, Quebec		206,800
	1,415	3,433,200

Land held for and under development

Location	Proposed Use	Approximate Number of Acres	% Company Participation
Ontario			
Acton	Residential	94	75
Etobicoke	Residential	9	100
Guelph	Multiple	879	75
Oakville	Residential	210	15
Orangeville	Commercial & Residential	9	75
Pickering	Multiple	294	75
Port Dover	Commercial & Residential	93	33.3
Simcoe	Residential	34	33.3
Toronto	Commercial	1	50
Uxbridge	Multiple	5,400	76.25
Vaughan	Multiple	215	40
Quebec			
Boucherville	Multiple	285	100
Montreal	Industrial	2	100
Pointe Claire	Industrial & Commercial	15	100

Construction in progress

Location	Type of Unit	Number of Units	% Company Participation
Boucherville, Quebec	Housing	52	100
Guelph, Ontario	Housing	88	75
Oakville, Ontario	Housing	41	50
Mississauga, Ontario	Housing	95	50
Simcoe, Ontario	Housing	15	33.3
Toronto, Ontario	Residential rental	722	66.7
Toronto, Ontario	Residential rental (lease)	726	50
		Square Feet Under Construction	
Montreal, Quebec	Industrial buildings	115,000	100
Guelph, Ontario	Shopping centre	13,000	100
Oakville, Ontario	Shopping centre	13,300	50
Toronto, Ontario	Commercial	9,300	75

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Revenue Properties Company Limited
and subsidiaries and joint ventures

CONSOLIDATED STATEMENT OF INCOME
Unaudited
Six months ended June 30, 1975
(with comparative figures six months ended June 30, 1974)

In thousands of dollars

	1975	1974
Sales — real estate and construction	**$ 3,840**	$ 6,075
Cost of sales	**3,209**	5,013
	631	1,062
Rental income	**5,502**	5,016
Property expenses including depreciation	**3,969**	3,907
	1,533	1,109
Other income	**450**	566
	2,614	2,737
Interest expense net of amount capitalized	**1,461**	1,480
Other expenses	**882**	1,095
	271	162
Net transfer from deferred income	**71**	427
Income before income taxes	**342**	589
Income taxes	**172**	306
Net income for the period	**$ 170**	$ 283
Earnings per share	**1.2¢**	2.0¢

CONSOLIDATED STATEMENT OF DEFICIT
Unaudited
Six months ended June 30, 1975

In thousands of dollars

Deficit at December 31, 1974	**$ 7,464**
Net income for the six months	**170**
Deficit at June 30, 1975	**$ 7,294**

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Interim report
Six months ended
June 30th, 1975

44 king street west, suite 1619, toronto, ontario M5H 3A3

REPORT TO THE SHAREHOLDERS

I am pleased to report on our Company's progress to date.

The profits for the first six months of 1975 were $170,000 compared with $283,000 for the same period in 1974. In comparing these results it is significant to note that profits before transfers from deferred income were $271,000 for 1975 as compared to $162,000 in 1974.

Income from real estate and construction was down from $6,075,000 in 1974 to $3,840,000 in 1975.

Rental income from both commercial and residential properties is showing encouraging growth to the point where our returns are achieving significant contributions to profits. Rental income for the first six months of 1975 was $5,502,000 as compared with $5,016,000 in 1974. Operating expenses were only up approximately $60,000, so that our net contribution from revenue producing assets was increased by approximately $430,000. We expect this trend to continue.

Included in the first half 1975 sales is $1,757,000 realized from the sale of some older revenue producing properties which are being replaced by more modern facilities.

In our joint venture in the Jane-Wilson area of Toronto we are building 1,160 apartment suites for rental, of which 438 are completed and fully rented and 722 are under construction. The third apartment building will be completed in the fall of 1975 and the fourth in 1976.

In Guleph we have commenced construction on 26 semi-detached houses, 64 town houses and a small commercial site.

In Oakville we have commenced construction of a small commercial site and 41 town houses in a joint venture.

In Mississauga we have commenced construction of 95 town houses also in a joint venture.

Our 320 acre development in the Montreal suburb of Boucherville is progressing as planned, and the introduction of our model homes in July of this year was enthusiastically accepted. We commenced our first industrial building in Boucherville of 63,000 square feet and have already rented half of the building. We are building an additional industrial building in Pointe Claire, Quebec of approximately 55,000 square feet for rental.

In our joint venture in Simcoe we have sold approximately 30 homes. The market has not yet developed to the extent that is anticipated from the development of the Stelco steel mill and the Texaco refinery, but we expect that this will take place in the fall of 1975 and will increase in the following years.

MAXWELL GOLDHAR
President

Toronto
August 14, 1975

Revenue Properties Company Limited
and subsidiaries and joint ventures

CONSOLIDATED BALANCE SHEET
Unaudited
June 30, 1975
(with comparative figures as at December 31, 1974)

In thousands of dollars

Assets	1975	1974
Revenue producing real estate	**$ 38,133**	$ 35,884
Construction in progress	**5,801**	2,632
Land held for and under development	**37,295**	36,353
Accounts and mortgages receivable	**11,523**	11,935
Cash	**1,949**	2,531
Deferred currency adjustment	**2,005**	2,060
Other assets	**768**	1,037
	$ 97,474	$ 92,432

Liabilities	1975	1974
Loans and mortgages payable	**49,563**	45,893
Sinking fund debentures	**14,088**	14,216
Bank indebtedness	**2,653**	2,272
Accounts payable	**5,930**	5,066
	72,234	67,447
Deferred income	**3,003**	3,072
Deferred income taxes	**2,207**	2,053
	77,444	72,572

Shareholders' Equity		
14,146,147 common shares issued	**27,324**	27,324
Deficit	**(7,294)**	(7,464)
	20,030	19,860
	$ 97,474	$ 92,432

Restatement of 1974

The Company has changed its policy of accounting for its interest in joint ventures. In previous years, the Company accounted for these joint ventures using the equity basis; it now consolidates its proportionate share of the assets, liabilities, revenues and expenses of unincorporated joint ventures. The comparative figures for 1974 have been restated to reflect this retroactive change in accounting policy which has no effect on net income.

Revenue Properties Company Limited
and subsidiaries and joint ventures

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Unaudited
Six months ended June 30, 1975
(with comparative figures six months ended June 30, 1974)

In thousands of dollars

Source of Funds	1975	1974
Funds from operations	**$ 790**	$ 949
Real estate and construction costs realized through sales	**2,994**	4,279
Increase in:		
Loans and mortgages payable	**3,670**	(504)
Bank indebtedness	**381**	963
Accounts and mortgages receivable	**405**	3,020
Accounts payable	**865**	(853)
Other changes in assets and liabilities	**190**	158
	$ 9,295	$ 8,012

Application of Funds		
Increase in investment of real estate	**9,759**	7,320
Sinking fund debentures	**118**	33
	9,877	7,353
Increase (decrease) in cash	**(582)**	659
	$ 9,295	$8,012